



Oklahoma Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

Economic Security

National defense enhances Oklahoma's economy

With a large active and retired military population, a staunchly supportive congressional delegation, and recognition as a top-tier military-friendly state, it is well-established that Oklahoma supports the military.

What may be less obvious is how well the military supports Oklahoma.

Oklahoma has five military installations within its borders: Altus Air Force Base, Fort Sill Army Post, McAlester Army Ammunition Plant, Tinker Air Force Base, and Vance Air Force Base.

According to a 2011 Oklahoma Department of Commerce report, *Oklahoma's Five Military Installations: an Economic Impact Report*, the economic activity of these facilities contributed \$9.6 billion to Oklahoma's gross domestic product in fiscal year 2010, representing more than 7 percent of the state's total economy. Additionally, there are veterans facilities, training and recruiting stations, and medical centers that further impact the economy.

Military operations in Oklahoma

also support hundreds of businesses that supply materials, equipment and construction to the local facilities and beyond. Additionally, defense spending has helped drive growth in emerging technology and research industries, such as unmanned aerial systems.

While the direct economic impact of the installations is quantifiable, measuring the indirect economic impact of all military related activity is challenging. For example, there are more than 20,000 dependents of active duty military who

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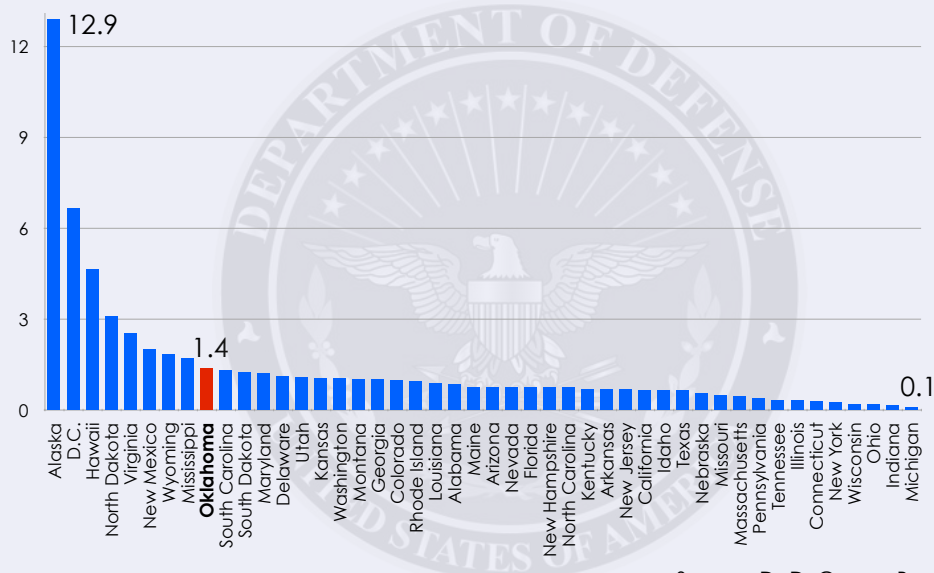
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State Military Installations Per Capita

Installations per 1 million population



Source: DoD, Census Bureau



Senator's Commentary By U.S. Senator Jim Inhofe

Defense dividends

Not only does a strong military secure our soil from foreign threats, but it also proves to be a strong investment in our economy. Oklahoma proudly represents the military with its five installations that contribute more than 64,000 jobs for our state's economy.

Other direct economic impacts come in the form of military construction projects, service contracts, and expenditures for equipment and materials – all vital to the mission of the Department of Defense (DOD).

Altus Air Force Base (AFB), which trains aircrews in the C-17 and KC-135, was recently selected to house the first formal training unit for the new KC-46A tankers.

This exciting announcement will bring eight aircraft to Altus along with new military construction and jobs focused on providing maintenance and technical support.

The operations at Altus AFB recently contributed over \$519 million to Oklahoma's Gross Domestic Product (GDP).

Fort Sill is the home of the Army's Fires Center of Excellence and is responsible for providing basic

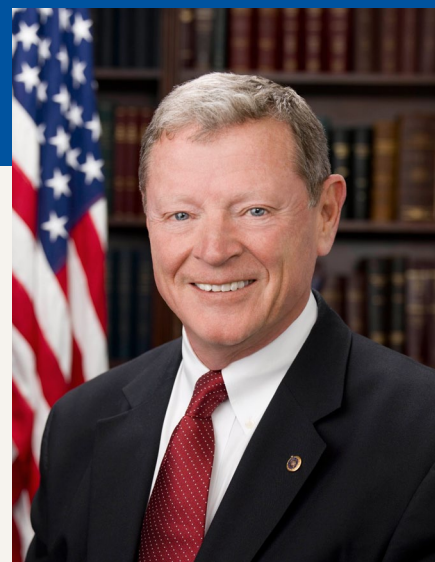
training and developing our air defense and artillery into a lethal force. The 94,000 acre installation employs over 27,000 soldiers and Marines and an additional 6,000 federal civilians and contractors.

If Fort Sill continues to conduct operations at a pace similar to that of recent years, employment impacts would average 52,056 jobs in Oklahoma's economy.

“Our five installations provide the citizens of Oklahoma with economic value, stability and a genuine sense of patriotism.”

McAlester Army Ammunition Plant provides the fire-power for our Soldiers, Sailors, Marines and Airmen to employ during both training and for combat operations overseas.

It recently contributed to over \$203 million to Oklahoma's GDP and is projected to account for \$223.7 million by 2015.



Tinker AFB provides depot maintenance to aircraft in the United States Air Force, Air Force Reserve, the Air National Guard, Navy, and our foreign allied units. They serve as Oklahoma's largest single-site employer and contributed \$4.4 billion to Oklahoma's GDP in 2010.

Vance AFB, originally created to serve as a flight school for thousands of WWII pilots, has evolved into the home station of the 71st Flying Training Wing and trains one-third of our Air Force pilots, employing over 2,700 personnel.

Oklahomans have a deep-rooted passion for supporting our armed forces. Our five installations serve as pillars of their respective communities, and they each provide the citizens of Oklahoma with economic value, stability and a genuine sense of patriotism.

It is more important now than ever

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Inhofe

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we continue to stand in strong support of our military here in Oklahoma as our national defense faces uncertain times.

The President has tried to fix our economy by putting into motion more than \$1 trillion in cuts to the DOD while increasing non-defense spending by 30 percent.

Thousands of Oklahomans have faced furloughs and layoffs because of it,

and the result has been a stagnant national economy. For the sake of our nation, our brave men and women in uniform, and our local economies, we can no longer accept Washington putting its fiscal problems on the backs of our military.

Defense

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undoubtedly contribute to the state's economy.

The positive impact to the state continues after individuals leave active duty status. Veterans often choose to retire near military centers and VA hospitals, resulting in the disbursement of hundreds of millions in military benefits in Oklahoma each year in the form of retirement and disability, health benefits and educational support services.

Installation Impact

More than 64,000 troops, officers, civilians and contractors are employed at Oklahoma's five installations. The State Department of Commerce estimates that military installations impact one out of every 16 jobs in the state, or 6.3 percent of all employment.

Beyond employment activities, each installation contributes to the economy through purchasing, service contracts, travel, land leases and support of military dependents. In FY-10, the five installations spent a total of \$1.37 billion on service contracts and purchasing alone.

Construction projects to maintain and upgrade runways and other infrastructure also boost the state's economy. More than \$336 million was spent for construction activity at Oklahoma's military installations in FY-10.

The most recent commerce department report concludes that the installations' economic impact affects the entire state, not just the immediate surrounding communities. For example, the report notes that the northeast quadrant of the state has several manufacturers and related businesses that provide services for the installations, even though no military facilities are located within that region.

Aerospace advantage

More than 500 aerospace companies currently operate in Oklahoma, combining for an estimated \$12.4 billion state economic impact, according to the state commerce department.

Oklahoma is one of only seven global aerospace hubs and Tinker Air Force Base is the nation's largest military and commercial aircraft Maintenance, Repair and Overhaul (MRO) facility for the U.S. Department of Defense. The American Airlines maintenance center in

Tulsa is one of the largest commercial MROs in the world.

The relationship between Oklahoma's thriving aerospace industry and the military has put the state at the forefront of emerging technology and

research industries. With its aerospace infrastructure, Oklahoma has become a leader in research and development for Unmanned Aerial Systems (UAS) and Unmanned Aerial Vehicles (UAV); industries whose growth is expected to triple over the next decade.

This is one sector where Oklahoma is not struggling to fill highly-technical jobs; the state is well-positioned to have the skilled workforce necessary to meet

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“Military installations impact one out of every 16 jobs in Oklahoma, or 6.3 percent of all state employment.”



Defense

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this industry's growth. Oklahoma State University offers the first-ever UAV graduate degree in the U.S. and the university's students have dominated international UAV competitions in recent years.

Due in part to Oklahoma having the nation's only restricted airspace for commercial UAV testing, the state has been selected as the test site for the new Department of Homeland Security Robotic Aircraft for Public Safety Program.

Additionally, Oklahoma has a formal agreement with the FAA and the Air Force to research and facilitate the future use of UAS in support of the FAA testing electronic navigational systems worldwide and was awarded a multi-year contract with the National Guard to advance the UAS training capabilities at

Camp Gruber, the U.S. Army National Guard training facility in eastern Oklahoma.

The projected growth of this technology niche will provide research and development opportunities for both the military and private sector, and is likely to become an even larger segment of the state's economy.

Veteran impact

According to the latest Census Bureau report, there are more than 323,000 veterans living in Oklahoma, and their presence further contributes to the impact of defense-related spending on the state's economy.

In FY-11, the amount of federal dollars sent to military retirees in Oklahoma through retirement and disability pay totaled \$8.9 billion. Additionally, nearly \$105 million in GI Bill funds were spent

in the state during that same time.

The number of retired military reflects more than those who were previously stationed at one of the state's installations; Oklahoma is attracting veterans from across the nation.

A 2011 assessment commissioned by Military.com and USAA named Oklahoma City the best place in the nation for military retirees to launch a second career. Factors contributing to this ranking included the high number of jobs that require military skills, a large number of veteran-owned businesses, defense contracts, the location of military bases and veteran centers, and the state's low cost of living and high quality of life.

In 2010, when the same group examined the best places for veterans to retire to without considering a post-retirement career, Oklahoma City earned the second-best spot. Oklahoma was also recently ranked the second most "military friendly" state in the nation for its support of veterans, active military and their dependents.

Sequestration effects

According to the Congressional Budget Office (CBO), sequestration requires more than \$500 billion in defense cuts over the next decade. Together with new spending caps put in the place by the Budget Control Act of 2011, CBO estimates total national defense spending reductions of more than \$1 trillion by 2021. The effects of this year's \$46 billion budget reduction are already being felt in Oklahoma with approximately 20,000 civilian workers being furloughed one day a

Five Military Installations: Big Economic Impact

- Contributed more than **\$9.6 billion in economic activity** to Oklahoma GDP in 2010, representing more than 7 percent of the state's total economy.
- In 2010, the total employment impact of Oklahoma's military installations was more than **133,800 jobs**, including approximately 69,100 directly employed at Oklahoma's military installations and an additional 64,700 jobs indirect jobs supported by the personnel and military operations.
- Total payroll associated with the military installations was greater than \$3 billion in FY-10, accounting for almost **5 percent of all wages paid in the state**.
- More than **22,000 active duty military dependents** were connected with the military personnel stationed or employed at the installations, further contributing to the state's economy.
- Oklahoma's military installations impact **one out of every 16 jobs in the state**.

Source: Oklahoma Department of Commerce, 2011 Economic Impact Report

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Defense

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week through the end of September. Officials at Tinker AFB and McAlester's weapons manufacturing plant have already reported lower productivity due to reduced manpower.

The full impact of sequestration on Oklahoma's military operations and support services will largely depend on the strategic approach selected by the Pentagon. The Secretary of the Army and the Army Chief of Staff have set a deadline of September 11 to receive

recommendations on how the service branch is to implement 25 percent cuts.

The U.S. Defense Secretary said in July that the cuts would force a strategic choice between military technology and troops.

If the Pentagon chooses to preserve the military's advantage in modern weaponry, the secretary foresaw force levels that would leave the U.S. with the smallest Army since before WW II.

With Senator Jim Inhofe, the ranking

member of the Senate Armed Services Committee, among the most vocal, Oklahoma's congressional delegation has called for more balance in how sequestration is applied. Currently, national defense is scheduled to absorb half of the overall budget cuts required under the deficit reduction plan.

Without changes to how sequestration is implemented, Oklahoma's military operations and services will be downsized, sending ripple effects through the state's economy.

After final accounting, rainy day fund gets deposit

After final accounting of General Revenue Fund allocations from Fiscal Year 2013, the Oklahoma Constitutional Reserve Fund, also known as the rainy day fund, received a deposit of \$2.7 million.

Preliminary accounting in July showed allocations had fallen short of the official estimate by 0.5 percent.

However, figures released by the Office of Management and Enterprise Services in August show total allocations in FY-13 exceeded the estimate by 0.05 percent.

The change from preliminary reports in July includes an additional \$1.1 million in income tax allocations with the remaining additional \$1.6 million being contributed from various miscellaneous sources.

The rainy day fund balance is \$535.2 million, lower than the prior year balance due to appropriation of \$45 million following the May tornadoes.

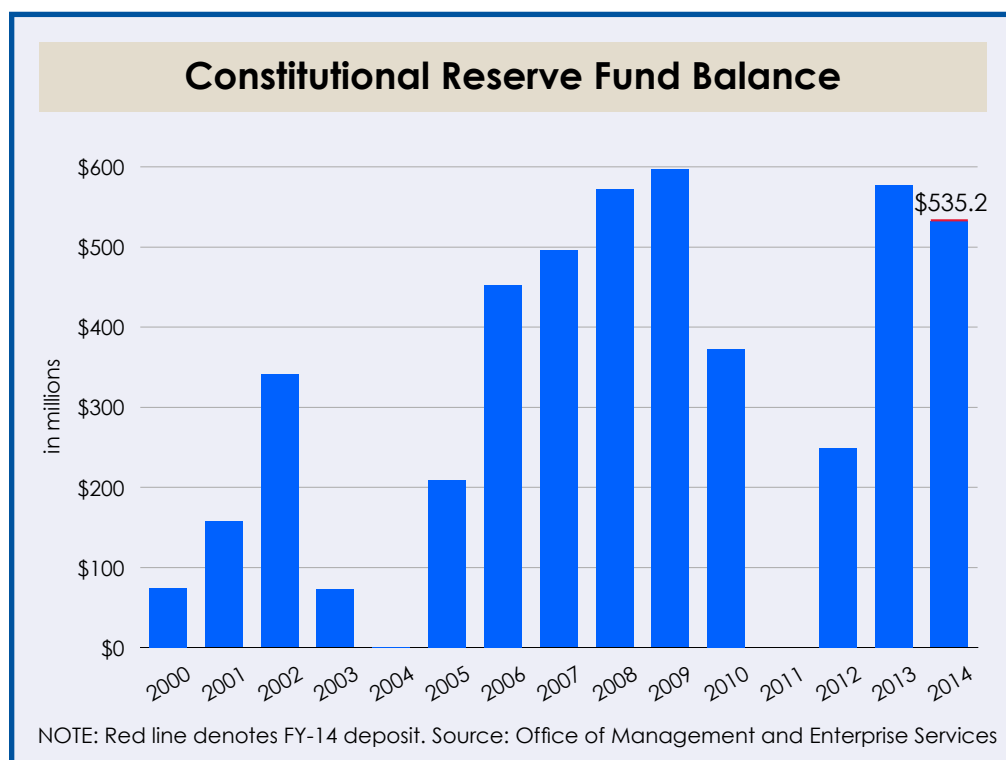
On final review, net income tax was the

only tax category to exceed the estimate – by more than 10 percent.

All other categories were below the estimate by percentages ranging from just over 1 percent with sales tax

to more than 40 percent with gross production taxes.

Total fiscal year allocations to the General Revenue Fund were reported as \$5.604 billion.





Gross receipts & General Revenue compared

The Treasurer's July 2 gross receipts to the treasury report and the Office of Management and Enterprise Services' August 14 General Revenue Fund (GRF) report contain several differences.

July gross receipts totaled \$923.8 billion, while the GRF received \$409.8 million or 44.4 percent of the total.

The GRF received between 32.2 percent to 57.3 percent of gross collections during the past 12 months.

From July gross receipts, the GRF received:

- Personal income tax: 61.5%
- Corporate income tax: 57%
- Sales tax: 45.7%
- Gross production-Gas: 48.5%
- Gross production-Oil: 0%
- Motor vehicle tax: 29.1%
- Other sources: 29.7%

July GRF allocations topped the estimate by \$14.3 million or 3.6 percent. In June, collections fell short of the estimate by \$61.5 million or 10.4 percent.

For the month, insurance premium taxes totaled \$117,000.

Tribal gaming fees generated \$10.3 million during July.

Twelve-month gross receipts reach all-time high

Twelve-month gross receipts to the Oklahoma treasury are at an all-time high, having surpassed in July the previous record high set in December 2008, State Treasurer Ken Miller announced.

Gross receipts for the past 12 months total \$11.3 billion and are \$12.6 million, or 0.1 percent, above the previous record high, Miller said.

"By at least this one measure, Oklahoma has regained and moved past the ground it lost during the Great Recession,"

Miller said. "The revenue recovery – from peak to peak – took four years and seven months."

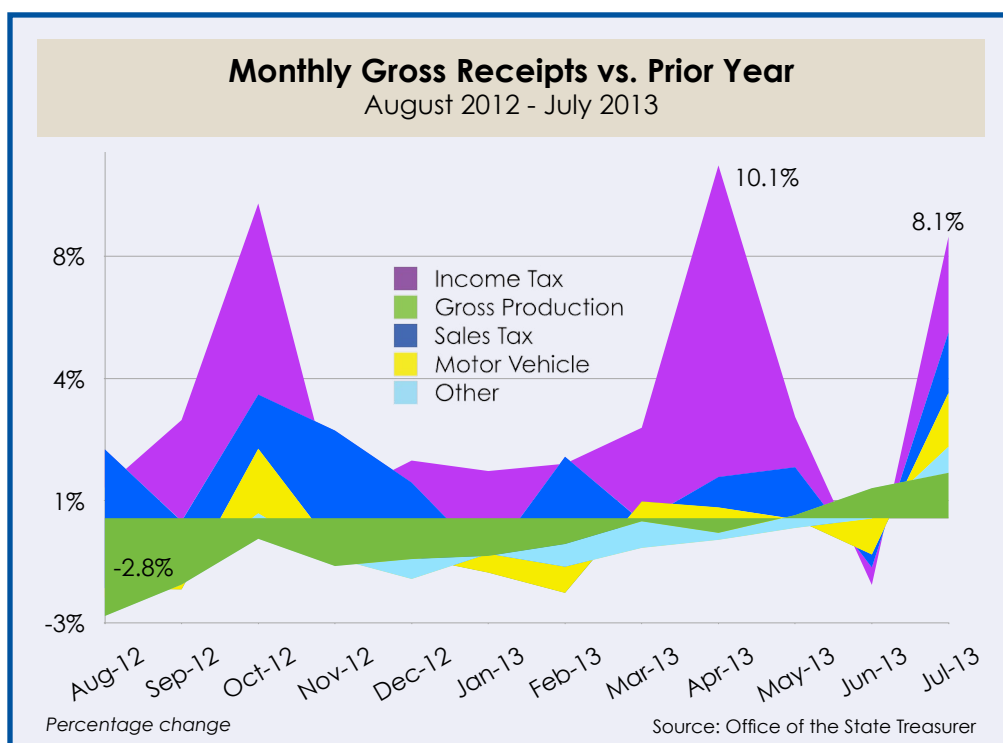
“By at least this one measure, Oklahoma has regained and moved past the ground it lost during the Great Recession.”

Twelve-month gross receipts hit a trough in February 2010 of \$9.4 billion. Since then, collections have grown by more than \$1.9 billion or 21 percent, Miller said.

Gross receipts in July were strong, totaling almost \$924

million, up by \$69 million or more than 8 percent from July of last year. All major revenue categories are up

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State jobless rate ticks up for third consecutive month

Oklahoma's unemployment rate was listed at 5.3 percent in July by the Oklahoma Employment Security Commission, up one-tenth of one percentage point from the June rate.

Reports show state employment shrank by 5,750 jobs during the month, while the jobless number rose by 290. The U.S. unemployment rate was set at 7.4 percent in July.

State Unemployment				
OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
Jul '13	5.3%	1,810,960	1,715,560	95,400
Jun '13	5.2%	1,816,420	1,721,310	95,110
Jul '12	5.3%	1,801,020	1,705,150	95,870

* Data adjusted for seasonal factors

Source: OESC

Revenue

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with the biggest increases coming from gross production and motor vehicle tax collections.

Tax officials say motor vehicle collections, up by 11 percent, and sales tax collections, up by 4.2 percent, were impacted by recovery from the May tornadoes, with rises reported in the

retail construction materials and auto sales sectors.

Monthly receipts from oil and natural gas severance taxes are higher than collections from the prior year for a third consecutive month, following more than a year of negative reports.

This week's Baker Hughes report showed 168 development wells underway in Oklahoma, with 149 for oil

and 19 for natural gas. Of those, 152 are horizontal and 13 are deeper than 15,000 feet.

Oklahoma's employment picture remains better than the national average. June state unemployment was set at 5.1 percent, compared to the U.S. rate of 7.6 percent for the same month.

Looking forward

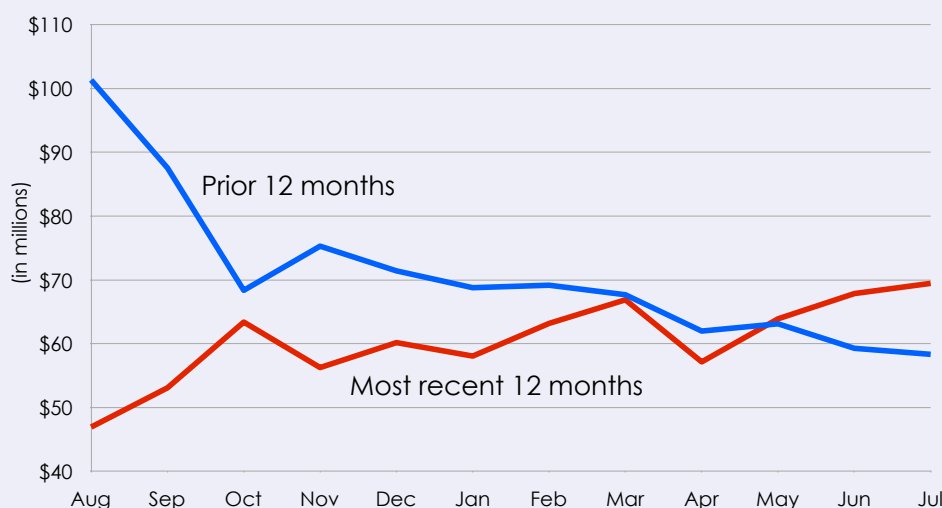
Miller said that while national economic growth has been underwhelming during the first half of the year, there are signs of an improving economy ahead.

"Broad economic indicators such as home construction, capital stock and investment, and inflation-adjusted income, are pointing toward increased growth, but threats remain," he said.

"Second quarter growth was slightly impacted by federal spending reductions, especially military spending cuts, but the economy was strong enough to push past this fiscal drag," Miller said. "Accelerated growth is expected for the remainder of the year, but a continued budget impasse in Washington could lead to a government shutdown and potential disruption of the economy."

Gross Production Tax Collections

August 2011 – July 2013



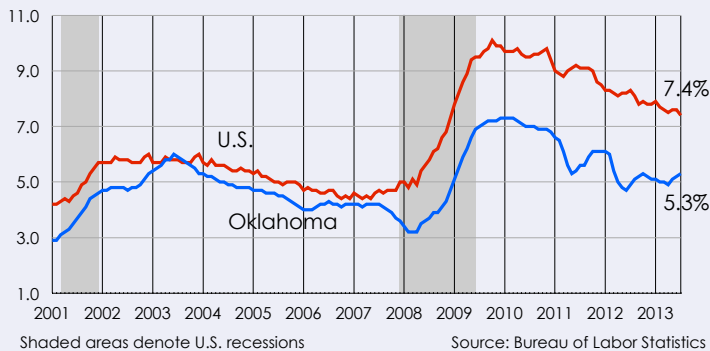
Source: Oklahoma Tax Commission



Economic Indicators

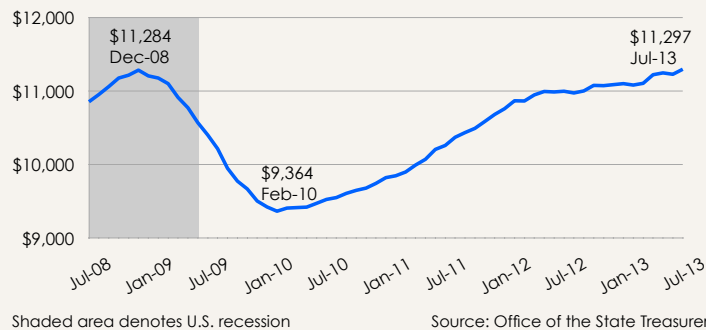
Unemployment Rate

January 2001 – July 2013

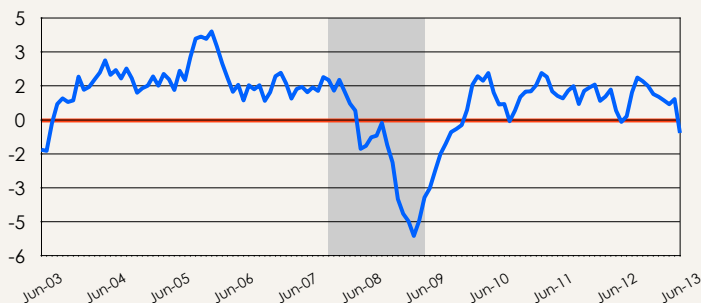


Oklahoma 12-Month Gross Receipts

July 2008 - July 2013
(in millions)

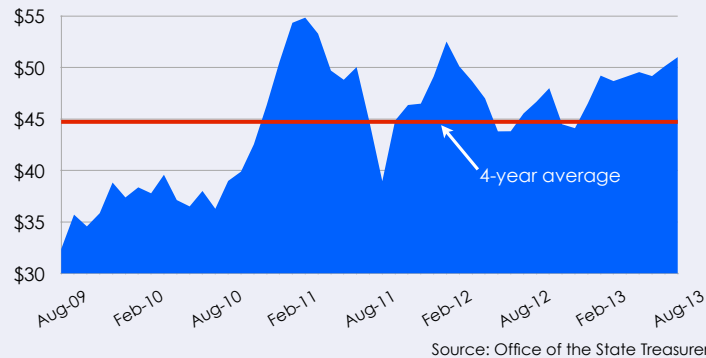


Leading Index for Oklahoma

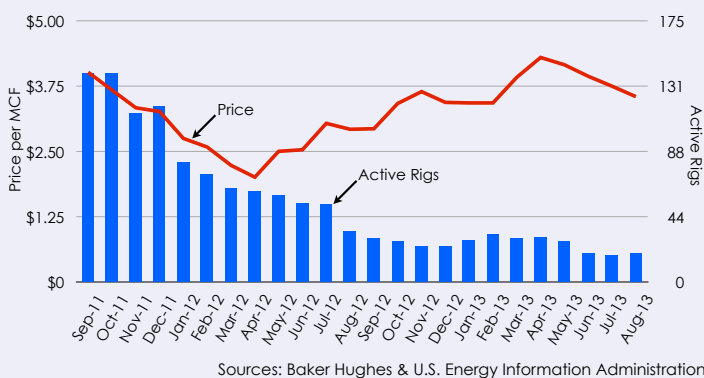


Oklahoma Stock Index

Top 25 capitalized companies



Oklahoma Natural Gas Prices & Active Rigs



Oklahoma Oil Prices & Active Rigs

